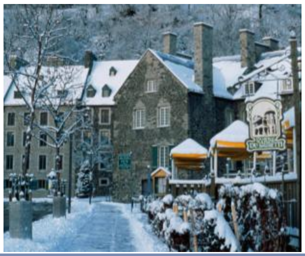
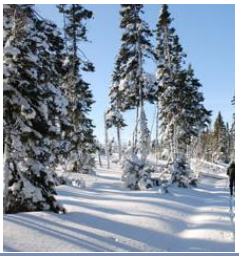
CANADIAN MONTHLY LODGING OUTLOOK – NOVEMBER 2012

HOTEL FINANCING PARAMETERS IN CANADA





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Hotel Financing Parameters in Canada

The availability and cost of debt have a direct impact on the value of a hotel hence, hotel financing parameters play an integral role in the feasibility of new hotels and transaction of existing properties. The typical capital stack for a hotel investment includes at minimum, 50% debt, thus understanding the state of the hotel finance market is critical to determining the value of hotel assets.

The debt market for hotels drives the investment cycle in the industry, thus it is no surprise that there were plentiful debt options in the prior peak market in 2007; however, by mid 2008 with the beginning of the debt crisis the hotel financing market was quick to feel the impact. Relative to the US, Canadian lending parameters were conservative pre-recession, but the global crisis made the availability of financing virtually non-existent. The conduit lending market disappeared and other lenders who had been active in the hotel sector dramatically tightened up their hotel portfolios. This limited availability of debt resulted in dramatic declines in both hotel transaction volumes and new hotel construction. The key difference in the Canadian market, relative to the US market, was the limited number of hotel loan defaults. While many lenders in the US took back the keys to hotels with loans in default, this was a relatively rare situation in Canada. Hotel values did decline substantially, but the conservative nature of the lending in Canada pre-recession meant that owners still had enough equity in their properties and the incentive to ride out the downturn.

By late 2010 it was evident that another shift was beginning to take place in the hotel lending environment in Canada and cautiously lenders were re-entering the hotel market and willing to consider hotel loans again. Lenders, banks, and financial investors are continuing to use parameters to limit risk, and they are remaining selective about lending for existing assets or new developments, but they do now have an appetite for these loans. Hotels are among the riskier real estate assets for lenders, which provide the challenge of limiting exposure, while at the same time trying to maximize the return that this high yield sector can offer. The increasing availability of debt is evident in the transaction volume in Canada which was back up over $1 billion in 2011 and year to date activity indicates it will likely be at a comparable level in 2012.

Considering the importance of debt parameters on hotel values and the investment and development markets, HVS regularly surveys lenders to determine the current state of the lending environment. The following table summarizes current hotel lending parameters. It should be noted that these are general parameters and that the actual terms used vary depending on property characteristics such as, location, property branding, the type of hotel, new build or existing hotel, as well as the relationship between the lender and the borrower.

Canadian Hotel Lending Parameters

Institution	Hotel Lending	Loan-to-Value Ratio	Debt Coverage Ratio	Amortization (Years)	Interest Rate (5-Year Term)
Financial Corporation	Limited	65% - 70%	1.25	20 - 25	4%
Major Bank	Yes	55%	1.25	15 - 20	4%
Financial Corporation	Yes	50% - 60%	1.4	20	4%
Major Bank	Limited	max. 50%	1.5	10	4.55%
Financial Institution	Yes	65%	1.4	15 - 20	3.75% - 4%
Major Bank	Limited	50% - 60%	1.1	20	4.25%
Major Bank	Yes	55%	1.55	15 - 20	4%

Source: HVS Data (December 2012)

Our survey indicates that there are numerous institutions providing hotel financing although some only on a limited basis. The typical loan-to-value ratio is approximately 60%, with the range from a low of 50% to a high of 70%. The required debt coverage ratio is a minimum of 1.1, but more conservative lenders can anticipate a ratio of up to 1.55. The typical amortization period is 20 years, with a range of 10 to 25 years. The biggest change that we have seen in the last year in terms of lending parameters is the drop in interest rates. The rate indicated for 5-fixed loans has decreased to a range of 3.75% to 4.55%. A substantial 100 basis point drop in the Government of Canada 5-year bond rate was noted from the fall of 2011 with hotel lending rates following course.

The low-interest-rate environment makes it a borrowing attractive resulting in many hoteliers looking to expand or refinance their hotel portfolios. Hotel cap rates are a direct function of interest rates, thus the decrease in interest rates is helping to drive down cap rates and increase hotel values. This increase in hotel values is closing the gap between buyers and sellers, thus transaction activity in 2012 has been brisk and is expected to continue in 2013.

In general lending parameters for hotel loans in Canada are quite static. Lenders who are in the market typically offer loan-to-value ratios in the 60% range, with 20-year amortization periods and interest rates that fluctuate with the corresponding Government of Canada bond yields. Given the current bond rates, interest rates are at historic lows and it is a good time to be a borrower. While lenders are quick to retract from this sector in uncertain times, the positive fundamentals that the industry is currently experiencing is bringing lenders seeking the potential for solid returns back into the market.

About the Authors

Stefania D'Antonio is a hotel Consulting and Valuation Associate with the HVS Toronto office in Canada. Stefania received her Bachelor of Commerce at Ryerson University's Hospitality and Tourism Management program. Prior to joining HVS, Stefania held various positions in hotel operations and managerial roles in Toronto's hospitality industry.

Carrie Russell has been with HVS Vancouver office since 1997. She is a graduate of the University of Victoria, obtaining a Bachelor of Commerce with Distinction. Prior to joining HVS, Carrie had experience in the hotel industry in British Columbia both on Vancouver Island and in the Okanagan Valley. She is a member of the Appraisal Institute of Canada (AACI) and Real Estate Institute of British Columbia (RIBC). She is also a Member of the Appraisal Institute in the United States and has obtained her MAI designation. Over the course of her career with HVS, Carrie has been involved with appraisals and/or feasibility studies for over 1,000 hotel properties throughout Canada and the United States. She has authored several articles on various topics relevant to the industry and speaks at several conferences on a regular basis.

Canadian Lodging Outlook November 2012

STR and HVS are pleased to provide you with the month's issue of the Canadian Lodging Outlook. Each report includes occupancy (Occ), average daily rate (ADR), and revenue per available room (RevPAR) for three major markets and the Provinces.

If you would like a detailed hotel performance data for all of Canada, STR offers their Canadian Hotel Review. The Canadian Hotel Review is available by annual subscription which includes both monthly and weekly issues. Each monthly issue of the Canadian Hotel Review also includes an analysis provided by HVS. For further information, please contact: info@str.com or +1 (615) 824-8664 ext. 3504.

November 2012	Occupancy Rate (%)		Average Room Rates ($CAD)		REVPAR ($CAD)		Room Supply	Room Demand	Number of Rooms	
	2012	2011	2012	2011	2012	2011	% chg	% chg	Sample	Census
Montreal	61.4%	64.2%	$131.43	$132.26	$80.69	$84.87	0.5%	-3.9%	16,704	27,873
Toronto	70.7%	68.8%	$146.70	$136.71	$103.70	$94.09	1.2%	4.0%	31,501	36,709
Vancouver	58.0%	60.9%	$125.57	$130.43	$72.85	$79.43	0.6%	-4.2%	19,619	26,415
Provinces										
Alberta	64.7%	62.3%	$135.54	$130.17	$87.73	$81.14	0.9%	4.8%	39,408	68,110
British Columbia	49.5%	51.3%	$117.63	$121.44	$58.21	$62.33	0.6%	-3.0%	37,608	82,688
Manitoba	67.8%	65.9%	$116.12	$115.81	$78.70	$76.33	2.3%	5.2%	5,718	13,755
New Brunswick	52.0%	52.3%	$106.44	$107.88	$55.36	$56.46	-3.2%	-3.8%	5,197	10,398
Newfoundland	73.5%	76.3%	$131.08	$127.69	$96.31	$97.38	1.6%	-2.1%	1,877	5,650
Nova Scotia	57.8%	58.8%	$113.15	$112.81	$65.43	$66.29	-1.4%	-3.0%	6,395	11,281
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	124	1,373
Ontario	61.3%	61.4%	$126.43	$121.54	$77.48	$74.65	0.9%	0.7%	84,874	133,906
Prince Edward Island	39.7%	37.9%	$85.20	$87.86	$33.86	$33.27	-1.4%	3.4%	987	3,814
Quebec	57.8%	59.7%	$128.29	$128.09	$74.09	$76.46	0.2%	-3.1%	27,394	75,154
Saskatchewan	72.5%	73.9%	$131.23	$125.77	$95.11	$92.89	4.6%	2.6%	8,248	17,155
Yukon Territory	INS	INS	INS	INS	INS	INS	INS	INS	378	1,660
Canada	**59.7%**	**59.9%**	**$126.22**	**$123.41**	**$75.35**	**$73.88**	**0.7%**	**0.5%**	**218,208**	**425,358**

November 2012 Year-To-Date	Occupancy Rate (%)		Average Room Rates ($CAD)		REVPAR ($CAD)		Room Supply	Room Demand	Number of Rooms	
	2012	2011	2012	2011	2012	2011	% chg	% chg	Sample	Census
Montreal	65.6%	66.7%	$134.95	$135.84	$88.50	$90.57	0.1%	-1.6%	16,704	27,873
Toronto	69.2%	69.6%	$137.99	$135.69	$95.49	$94.37	1.1%	0.6%	31,501	36,709
Vancouver	68.3%	67.9%	$139.70	$142.30	$95.46	$96.68	0.7%	1.3%	19,619	26,415
Provinces										
Alberta	65.7%	62.3%	$139.93	$134.74	$91.87	$83.91	1.0%	6.4%	39,408	68,110
British Columbia	62.3%	61.8%	$134.37	$134.87	$83.65	$83.39	0.4%	1.1%	37,608	82,688
Manitoba	64.3%	65.7%	$114.46	$112.80	$73.54	$74.10	2.2%	0.0%	5,718	13,755
New Brunswick	56.4%	57.4%	$110.56	$112.18	$62.39	$64.40	-1.0%	-2.7%	5,197	10,398
Newfoundland	75.6%	74.7%	$139.27	$134.70	$105.35	$100.57	-1.2%	0.1%	1,877	5,650
Nova Scotia	64.8%	64.0%	$120.89	$119.94	$78.36	$76.81	-1.7%	-0.5%	6,395	11,281
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	124	1,373
Ontario	63.5%	63.3%	$125.43	$123.51	$79.71	$78.15	0.7%	1.1%	84,874	133,906
Prince Edward Island	53.4%	54.4%	$111.68	$113.17	$59.59	$61.61	1.1%	-0.9%	987	3,814
Quebec	64.0%	64.6%	$135.44	$134.87	$86.62	$87.07	-0.1%	-1.0%	27,394	75,154
Saskatchewan	69.0%	68.9%	$126.85	$121.85	$87.48	$83.91	2.3%	2.5%	8,248	17,155
Yukon Territory	INS	INS	INS	INS	INS	INS	INS	INS	378	1,660
Canada	**63.9%**	**63.2%**	**$130.28**	**$128.29**	**$83.24**	**$81.07**	**0.5%**	**1.6%**	**218,208**	**425,358**

*INS = Insufficient Data

About STR

STR provides information and analysis to all major Canadian and U.S. hotel chains. Individual hotels, management companies, appraisers, consultants, investors, lenders and other lodging industry analysts also rely on STR data for the accuracy they require. With the most comprehensive database of hotel performance information ever compiled. STR has developed a variety of products and services to meet the needs of industry leaders.

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com

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